[COMMITTEE PRINT]

PROPOSED INCOME TAX CONVENTION BETWEEN THE UNITED STATES AND ICELAND

PREPARED FOR THE USE OF THE

COMMITTEE ON FOREIGN RELATIONS

BY THE STAFF OF THE

JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

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INTRODUCTION

There is presently no income tax convention between the United States and Iceland. Adoption of the proposed convention will help promote more economic and cultural contacts between the two countries.

The proposed convention follows the model tax convention of the Organization for Economic Cooperation and Development (OECD) and the recent tax conventions of the United States (for example, the Belgian, Japanese, and Norwegian Conventions). Thus, the proposed convention with Iceland generally follows the approach of other U.S. income tax treaties.

One of the most significant features of the proposed convention is the adoption of the "effectively connected concept" in place of the so-called "force of attraction" doctrine which appeared in earlier treaties of the United States. Accordingly, a resident of one country who derives investment income from the other country will be entitled to the reduced rates of tax provided by the proposed convention even though he has a permanent establishment in the source country as long as the income is not effectively connected with the permanent establishment. This feature is embodied in The Foreign Investors Tax Act of 1966 and other recent U.S. tax treaties.

The other more important features of the proposed convention are the following:

(1) The United States and Iceland are defined to include their respective continental shelves insofar as income arising from the exploration and exploitation of natural resources on the continental shelf is concerned. The effect of this provision is to recognize a country's jurisdiction to tax income arising in connection with natural resource activities on the country's continental shelf. A definition of this type is found in other recent income tax conventions (e.g., Trinidad and Tobago, Belgium and Norway. In addition, a similar provision was added to the Internal Revenue Code by the Tax Reform Act of 1969.

(2) The reciprocal exemption for international ship and air transportation income includes income from the use of containers and trailers for the inland transport of containers in connection with the international operation of a ship or aircraft.

(3) Generally, income from dividends will be subject to a 15 percent rate of tax, but, in the case of dividends where the recipient has at least 10 percent ownership interest in the paying corporation (which is not an investment-type company), such income will be subject to a 5 percent rate of tax.

(4) A special rule is provided under which Iceland will allow a deduction for dividends paid with respect to the income of a United States permanent establishment in Iceland because Iceland has a dividends paid deduction in their domestic system.

(5) Interest income will be exempt from tax unless effectively connected with a permanent establishment in the source country.

(6) Income from industrial and artistic royalties will be exempt from tax unless effectively connected with a permanent establishment in the source country.

(7) Income from equipment rentals will be exempt from tax unless effectively connected with a permanent establishment in the source country.

(8) No exemption is provided on income from the furnishing by an organization of services of individuals who may be designated by the recipient of the services where the effect of furnishing the services through the organization is a substantial reduction of income taxes.

GENERAL EXPLANATION

Article 1. Taxes covered

The proposed convention applies to the U.S. Federal income tax imposed under the Internal Revenue Code. In the case of Iceland, it applies to the National income tax, National capital tax, and municipal income tax imposed under Icelandic law.

The proposed convention also contains a provision generally found in U.S. income tax treaties to the effect that it will apply to substantially similar taxes which either country may subsequently impose.

Additionally, it is provided that the nondiscrimination provisions (Article 7) of the convention applies to all taxes imposed by the United States or Iceland or by states, political subdivisions or local authorities thereof. The Exchange of Information provisions (Article 29) of the proposed convention will also apply to taxes of every kind imposed by the two countries.

Article 2. General definitions

The standard definitions found in most of our income tax treaties are contained in the proposed convention.

In addition, the proposed convention contains a provision which is contained in the more recent U.S. tax treaties, which includes within the definition of the term "United States" the territorial sea of the United States and the continental shelf of the United States insofar as the exploration and exploitation of natural resources on the continental shelf is concerned. This expanded definition, however, is applicable for purposes of the proposed convention only to the extent that the person, property, or activity involved is connected with the exploration and exploitation of natural resources. A similar definition of Iceland is contained in the proposed convention. The definition of continental shelf areas contained in the proposed convention is similar to that contained in the conventions with Trinidad and Tobago, Belgium and Norway, and to that provided in the Internal Revenue Code (as amended by the Tax Reform Act of 1969), except that under the Code the continental shelf definitions apply only with respect to mines, oil and gas wells, and other natural deposits. In practical operation, however, the applicability of the provision usually will be similarly restricted. The activity of fishing is not intended to be considered the exploration or exploitation of natural resources of the continental shelf, and thus the definition of continental shelf is not to apply with respect to this activity.

The proposed convention also contains the standard provision that undefined terms are to have the meaning which they have under the applicable tax laws of the country applying the convention. Where a term is defined in a different manner by the two countries, the competent authorities of the two countries may establish a common meaning for the term in order to prevent double taxation or to further any other purpose of the convention.

Article 3. Fiscal domicile

The benefits of the proposed convention generally are available only to residents of the two countries. The proposed convention defines "resident of Iceland" and "resident of the United States," and in addition provides a set of rules to determine residence in the case of an individual with dual residence. This provision of the proposed convention is based on the fiscal domicile article of the OCED model convention and is similar to the provisions found in other U.S. tax treaties.

An individual whom both countries consider to be a resident according to their general rules for determining residence will be deemed for all purposes of the convention to be a resident of the country in which he has his permanent home (where an individual dwells with his family), his center of vital interests (his closest economic and personal relations), his habitual abode, or his citizenship. If the residence of an individual cannot be determined by these tests, applied in the order stated, the competent authorities of the countries will settle the question by mutual agreement.

Article 4. General rules of taxation

The proposed convention contains the basic general rules of taxation which are found in most of our other tax treaties. A resident of one country may be taxed by the other country only on income from sources within that other country (which includes any business profits attributable to a permanent establishment of the resident in that other country). The proposed convention also is not to be interpreted as denying tax benefits available presently or in the future under the tax laws of the two countries or under any other agreement between the countries.

Additionally, the usual savings clause is contained in the proposed convention. Under this clause, it is provided that with certain exceptions, the proposed convention is not to affect the taxation by the United States or Iceland of its citizens or residents. The principal exceptions involve the benefits provided under the foreign tax credit, nondiscrimination, governmental salaries, teachers, and students provisions.

Similar to the French and Norwegian conventions, the proposed convention limits to some degree the right of the United States to impose its personal holding company tax and accumulated earnings tax with respect to Icelandic corporations.

Article 5. Relief from double taxation

Under the proposed convention, a U.S. citizen or resident will be allowed a credit against the U.S. tax for the appropriate amount of income taxes paid to Iceland. The credit allowed under this provision is subject to the provisions of U.S. law applicable to the year in question and is limited to the amount of U.S. tax attributable to income from sources within Iceland.

The proposed convention also makes a credit available where a United States corporation receives a dividend from an Icelandic corporation in which it has at least a 10-percent ownership interest.

In this case, a credit will be allowed for the corporate tax paid to Iceland by the Icelandic corporation on the earnings out of which the dividend is paid. Since this provision does not contain a specific formulation of the limitation on the credit allowed, a foreign tax credit claimed by a U.S. taxpayer under this provision of the proposed convention will be subject to the applicable limitation provided by the Internal Revenue Code for that year.

For the purpose of applying the United States credit in relation to taxes paid to Iceland, the rules set forth under Article 6 will be applied to determine the source of income, and both Iceland's National income tax and municipal income tax will be considered to be income taxes.

The proposed convention provides that where a resident of Iceland derives income which may be taxed in the United States or by both countries (under the capital gains, independent personal services, or dependent personal services provisions (Articles 16, 18 and 19)), or is exempt from United States tax (under the teachers or students and trainees provisions (Articles 21 and 22)), Iceland will exempt such income from tax, but, in calculating tax on the remaining income of that resident, may apply the rate of tax which would have been applicable if the exempted income had not been so exempted. A similar rule is provided by Iceland for property subject to its capital tax.

Except in those situations described above in which Iceland will exempt certain types of income from its tax (e.g., capital gains, teachers), where a resident of Iceland derives income which may be taxed under the proposed convention by both countries, Iceland will allow a credit against the tax on the income of that resident in an amount equal to the tax paid in the United States. However, this credit will not exceed that part of the Icelandic tax, as computed before the credit is given, which is attributable to the income derived from sources in the United States.

Article 6. Source of income

The source of income rules are important in view of the general rule in treaties that one country may tax residents and corporations of the other country only on income from sources within the taxing country, and also in view of the fact that the limitation on the foreign tax credit provision is based on the source of income.

The proposed convention follows the existing treaties with Finland, Belgium, Trinidad and Tobago, and Japan by including a rule for determining the source of business profits. Business profits attributable to a permanent establishment will be considered as being from sources within the country in which the permanent establishment is located. For purposes of this rule, business profits include passive income which is treated as business profits because it is effectively connected with a permanent establishment. This rule is found in our more recent income tax treaties.

Article 7. Nondiscrimination

The proposed convention contains a comprehensive nondiscrimination provision similar to provisions which have been embodied in other recent U.S. income tax treaties. One country cannot discriminate by imposing more burdensome taxes on its residents who are citizens of the other country, or on permanent establishments of residents of the other country, than it imposes on comparable taxpayers. The nondiscrimination provision also applies to corporations of one country which are owned by residents of the other country.

The provision pertaining to a permanent establishment which a resident of one country has in the other country is not to preclude Iceland from taxing the total profits attributable to a permanent establishment maintained in Iceland by a U.S. corporation. However, the amount of tax in this situation will not exceed the tax which would be imposed on an Icelandic corporation, with the same amount of profits, which distributed the same percentage of its profits as the U.S. corporation distributed to its shareholders. Under Iceland's tax law, an Iceland corporation is allowed a deduction for dividends paid in an amount not exceeding ten percent of the nominal value of the stock of such corporation. This provision extends the dividends paid deduction to permanent establishments of U.S. corporations.

Article 8. Business profits

Under the proposed convention, business profits of a resident of one country are taxable in the other country only to the extent they are attributable to a permanent establishment which the resident has in the other country. In computing the taxable business profits, the deduction of all expenses, wherever incurred, which are reasonably connected with the business profits are allowed.

In addition, business profits will not be attributed to a permanent establishment merely by reason of the purchase of merchandise by the permanent establishment (or by the resident of which it is a permanent establishment) for the account of that resident.

In determining the profits of a permanent establishment there is to be attributed to it the industrial or commercial profits which would reasonably be expected to have been derived by it if it were an independent entity engaged in the same or similar activities under the same or similar conditions and dealing at arm's-length with the resident of which it is a permanent establishment.

The proposed convention sets forth examples of types of income which are considered business profits and in so doing follows the approach of our other recent treaties and the Internal Revenue Code by including within business profits investment income arising from a right or property which is effectively connected with the permanent establishment. The types of passive income included within business profits are income derived from real property and natural resources, dividends, interest, royalties and capital gains.

Article 9. Definition of permanent establishment

The proposed convention contains an expanded definition of permanent establishment which follows the pattern of the OECD model convention and other recent U.S. income tax treaties. The permanent establishment concept is one of the basic devices used in income tax treaties to avoid double taxation. Generally, a resident of one country is not taxable on its business profits by the other country unless those profits are attributable to a permanent establishment of the resident in the other country. In addition, the permanent establishment concept is used to determine whether the reduced rates of, or exemptions from, tax provided for dividends, interest, and royalties are applicable.

In general, a fixed place of business through which a resident of one country engages in industrial or commercial activities in the other country is considered a permanent establishment. This includes a branch, an office, a factory, a workshop, a warehouse, and any building site, or construction or installation project, which lasts for more than 12 months.

This general rule is modified to provide that a fixed place of business which is used for any or all of a number of specified activities will not constitute a permanent establishment. These activities include the use of facilities for storing, displaying, or delivering merchandise belonging to the resident, the maintenance of a stock of goods belonging to the resident for purposes of storage, display, delivery, or processing by another person, and the purchase of goods or collection of information for the resident.

A resident of one country will be deemed to have a permanent establishment in the other country if it maintains an agent in the other country who has, and habitually exercises, a general contracting authority (other than for the purchase of merchandise) in that other country.

The proposed convention contains the usual provision that the agency rule will not apply if the agent is a broker, general commission agent, or other agent of independent status acting in the ordinary course of its business.

Article 10. Shipping and air transport

The proposed convention provides that income derived by a resident of the United States from the operation in international traffic of ships or aircraft registered in the United States is exempt from Icelandic tax. Income derived by a resident of Iceland from the operation in international traffic of ships or aircraft is exempt from United States tax regardless of where the ship or aircraft is registered.

Income from the operation in international traffic of ships or aircraft includes the rental income of ships or aircrafts operated in international traffic if the rental income is incidental to income from the actual operation of ships or aircrafts in international traffic. For example, this rule permits an airline which is a resident of one country and which has excess equipment during certain periods to lease that excess equipment during those periods to an airline which is a resident of the other country. In such a case the rental income of the lessor is exempt from tax in the other country, whether or not the other airline uses the aircraft in international traffic.

The proposed convention also makes clear that income derived from the use and lease of containers, trailers for the inland transport of containers, and other related container equipment in connection with the operation in international traffic of ships or aircraft is to be included within the scope of the shipping and air transport provision.

Article 11. Related persons

The proposed convention, like most other U.S. tax conventions, contains a provision similar to section 482 of the Internal Revenue Code which recognizes the right of each country to make an allocation of income in the case of transactions between related persons, if an allocation is necessary to reflect the conditions and arrangements which would have been made between unrelated persons.

It is anticipated that when a redetermination has been made by one country with respect to the income of a related person, the other country will attempt to reach an agreement with the first country in connection with the redetermination, and if it agrees with the redetermination, it will make a corresponding adjustment to the income of the other person.

Article 12. Dividends

The proposed convention limits the rate of withholding tax in the source country on dividends derived by a resident of the other country to 15 percent generally, and to 5 percent in the case of dividends paid by a corporation in which the recipient has at least a 10 percent ownership interest (provided not more than 25 percent of the income of the paying corporation consists of dividends and interest—i.e., it is not an investment company).

The proposed convention adopts the effectively connected concept. Accordingly, the reduced rates of tax on dividends will apply unless the recipient has a permanent establishment in the source country and the dividends are effectively connected with the permanent establishment. If the dividends are effectively connected with a permanent establishment, the dividends are to be taxed under the business profits provisions (Article 8). This treatment of dividends generally conforms to that provided by the Foreign Investors Tax Act of 1966, the OECD model convention, and other recent U.S. income tax treaties.

Dividends paid by a corporation of one country to a person other than a resident of the other country (and, in the case of dividends paid by an Icelandic corporation, to a person other than a U.S. citizen) will be exempt from tax by the other country. However, this rule is inapplicable if the dividend recipient has a permanent establishment in that other country and the dividends are effectively connected with such permanent establishment.

Article 13. Interest

Under the proposed convention, interest derived by a resident of one country from sources within the other country is exempt from tax in the source country unless the recipient has a permanent establishment in the source country and the interest is effectively connected with the permanent establishment. If the interest is effectively connected with a permanent establishment, then it will be taxed under the business profits provisions (Article 8) of the proposed convention. This treatment generally conforms to that provided by other recent U.S. tax treaties and the OECD model convention.

A definition of interest is provided which is substantially identical to that found in the OECD model convention and other recent U.S. income tax treaties. In situations where the payor and recipient are related, it also limits the amount of interest to that which would have been paid had they not been related.

Interest paid by a resident of one country to a person other than a resident of the other country (and, in the case of interest paid by an Icelandic corporation, to a person other than a U.S. citizen) will be exempt from tax by the other country. However, this rule is inapplicable if the interest is treated as income from sources within the other country under the proposed convention's source of income rules or if the recipient of the interest has a permanent establishment in the other country and the interest is effectively connected with such permanent establishment.

Article 14. Royalties

Under the proposed convention, which adopts the effectively connected concept, industrial and artistic royalties derived from one country by a resident of the other country are exempt from tax in the source country unless the recipient has a permanent establishment in the source country and the royalties are effectively connected with the permanent establishment. If the royalty is effectively connected with a permanent establishment, then it will be taxed under the business profits provisions (Article 8). This treatment of royalties is substantially identical to that provided in the OECD model convention.

The proposed convention does not include film royalties within the scope of the royalties article. Instead, they are treated as business profits and accordingly are exempt from tax unless they are attributable to a permanent establishment which the recipient maintains in the source country.

As in the case of the interest provision, the royalty provision does not apply to that part of a royalty paid to a related person which is considered excessive.

Article 15. Income from real property

The proposed convention provides that income from real property (not including income and gains from ships and aircraft and interest on obligations secured by the property or secured by natural resource royalties) may be taxed in the country where the real property or natural resources are located. Income from real property includes income from the direct use, renting and gains on the sale, exchange or other disposition of the property.

Article 16. Capital gains

The proposed convention generally provides that capital gains derived by a resident of one country will be exempt from tax by the source country unless the recipient of the gain has a permanent establishment in the source country and the property giving rise to the gain is effectively connected with the permanent establishment. In the case of an individual resident of one country who is not taxable under the general rule, gains derived from the other country will be exempt from tax by the source country unless the individual is present in the source country for 183 days or more during the taxable year or maintains a fixed base in the source country for 183 or more days during the taxable year and the property giving rise to the gain is effectively connected with the fixed base.

Gains which a resident of one country derives from the sale or exchange of ships or aircraft operated in international traffic will be exempt from tax by the source country.

Article 17. Capital taxes

As previously indicated (Article 1), the proposed convention applies to the National capital tax imposed by Iceland. This provision of the proposed convention, in effect, provides that a resident of the United States will be exempt from the capital tax imposed by Iceland on nonbusiness personal property (i.e., on property other than real property or property effectively connected with an Icelandic permanent establishment or fixed base) and on U.S. ships and aircraft and personal property pertaining to the operation of those ships and aircraft.

Although this provision is reciprocal in form, it only will affect the taxation by Iceland of U.S. residents since the United States does not impose a capital tax. In the absence of a convention, individuals who are not residents of Iceland are subject to the Icelandic National capital tax with respect to the net amount of various types of property located in Iceland.

Article 18. Independent personal services

Under the proposed convention, income from the performance of independent personal services in one country (the source country) by a resident of the other country is exempt from tax in the source country unless the person performing the personal service (1) is present in the source country for 183 or more days during the taxable year, or (2) maintains a fixed base in the source country for 183 or more days, and such income is attributable to the fixed base. However, in the case of public entertainers (such as a theater, motion picture, television artist, musician, or an athlete), the entertainer will be taxable in the source country if present there for more than 90 days or if the income from the source country exceeds $100 per day while the individual is present there to perform.

Article 19. Dependent personal services

Under the proposed convention, income from services performed as an employee in one country (the source country) by a resident of the other country will not be taxable in the source country if three requirements are met: (1) the individual is present in the source country for less than 183 days during the taxable year; (2) the individual is an employee of a resident of, or a permanent establishment in, his country of residence; and (3) the remuneration is not borne by a permanent establishment of the employer in the source country.

Remuneration derived by an individual from the performance of personal services as an employee aboard a ship or aircraft operated by a resident of one country in international traffic or in fishing on the high seas is exempt from tax by the other country, provided that the individual is a member of the regular complement of the ship or aircraft.

Article 20. Amounts received for furnishing personal services

The proposed convention contains a provision which allows the country where personal services are furnished to tax the income from the furnishing of the services under situations which have been viewed as an abuse of tax conventions. The purpose of this provision is to prevent individuals from using an entity of one country (generally a corporation) to furnish services in the other country thereby avoiding the payment of tax in either country.

Under the proposed convention, amounts received by a resident of one country for furnishing services in the other country of one or more designated individuals are not to constitute industrial or commercial profits and thus may be taxed by the source country even though there is no permanent establishment in that country. This provision is to apply if the person for whom the services were rendered had the right (whether or not legally enforceable) to designate the person or persons who would render the services and the person performing the services is not a resident of either country who is subject to tax on the compensation. This provision is not to apply if it is established to the satisfaction of the competent authority of the source country that the organization furnishing the services was neither formed nor used in a manner so that the effect is a substantial reduction on the income taxes from the furnishing of the services.

Article 21. Teachers

The proposed convention provides that a teacher or researcher who is a resident of one country will be exempt from tax in the other country on income from teaching in the host country if he is present in that country for a period not exceeding two years pursuant to an agreement between the countries or between educational instituions of the two countries or pursuant to an invitation of the host country or an educational institution of the host country. The exemption is not to apply if the research is undertaken primarily for the benefit of a specific person or persons.

Article 22. Students and trainees

Under the proposed convention, residents of one country who become students in the other country will be exempt from tax in the host country on gifts from abroad used for maintenance or study and on any grant, allowance or award received from a governmental or charitable organization. In addition, a limited exemption is provided for personal service income derived from sources within the country in which the individual is studying. Under this provision, the host country will exempt from tax $2,000 per year of personal service income (such as income from a part-time job). These exemptions (the complete, as well as the limited one) and the visiting teachers exemption may not be utilized for a period of more than 5 years in total.

In addition, the benefits under the teacher's article are not available to an individual, if during the immediately preceding period, the individual received the benefit of the student provision.

In addition to the exemption regarding students, the proposed convention follows the approach of other recent U.S. tax treaties and provides a limited exemption for personal service income of residents of one country who are employees of a resident of that country and who are temporarily present in the other country to study at an educational institution or acquire technical, professional or business experience. This exemption is available for a period of 12 consecutive months and is limited to $5,000. The proposed convention also provides an exemption for income from personal services performed in connection with training, research or study by residents of one country who are temporarily present in the other country as participants in Government sponsored exchange training programs. This exemption is limited to $10,000.

Article 23. Governmental functions

Under the proposed convention, wages, including pensions or similar benefits paid from public funds of one country or a political subdivision or local authority thereof, to a citizen of that country for labor or personal services performed for that country or any political subdivision or local authority thereof in the discharge of governmental functions is exempt from tax by the other country.

Article 24. Private pensions and annuities

Under the proposed convention, private pensions and annuities derived from one country by residents of the other country are exempt from tax in the source country. In addition, alimony paid to a resident of one country is exempt from tax by the other country.

Article 25. Social security payments

The proposed convention contains a provision regarding social security payments which is similar to that found in the more recent U.S. tax conventions. It is provided that only the payor country may tax social security payments (and similar pensions) made to a resident of the other country, or, in the case of such payments by Iceland, to a U.S. citizen.

Under the provisions of the proposed convention (Article 32), the rules pertaining to social security payments may be terminated by either country at any time after the convention comes into force.

Article 26. Diplomatic and consular officials

The proposed convention contains the rule found in other U.S. tax treaties that its provisions are not to affect the fiscal privileges of diplomatic and consular officials under the general rules of international law or the provisions of special agreements.

Article 27. Investment or holding companies

The proposed convention contains a provision which denies the benefits of the dividends, interest, royalties and capital gains articles to a corporation which is entitled in its country of residence to special tax benefits resulting in a substantially lower tax on those types of income than the tax generally imposed on corporate profits by that country, if more than 25 percent of the capital of the corporation is owned by nonresidents of that country. A similar provision is contained in the Norwegian and the Trinidad and Tobago conventions.

The purpose of this provision is to prevent residents of third countries from using a corporation in one treaty country, which is preferentially taxed in that country, to obtain the tax benefits in the other treaty country which the proposed convention provides for dividends, interest, royalties, and capital gains derived from that other country. This accords with the purpose of an income tax convention between two countries to lessen or eliminate the amount of double taxation of income derived from sources within one country by a resident of the other country.

At the present time, neither Iceland nor the United States grants to investment or holding companies the type of tax benefits with respect to dividends, interest, royalties, and capital gains which would make this provision of the proposed convention applicable. Thus, the provision will have effect only if Iceland or the United States should subsequently enact special tax measures granting preferential tax treatment to dividends, interest, royalties, and capital gains received by an investment or holding company.

Articles 28, 29, and 30. Administrative provisions

The proposed convention contains various administrative provisions generally along the lines of the provisions contained in other U.S. tax treaties. In general, the proposed convention provides—

(1) for consultation and negotiation between the two countries to resolve differences arising in the application of the proposed convention and also to resolve claims by taxpayers that they are

being subjected to taxation contrary to the terms of proposed convention;

(2) for the exchange between the countries of information pertinent to carrying out the provisions of the proposed convention and of the domestic laws of the countries concerning taxes covered by the proposed convention; and

(3) that each country is to assist the other in collecting taxes imposed by the other country to the extent necessary to insure that the benefits provided by the proposed convention are enjoyed only by persons entitled to those benefits.

Article 31. Entry into force

The proposed convention will enter into force one month following the exchange of the instruments of ratification. It will become effective with respect to taxable years (and payments made) beginning on or after January 1st of the year following the year in which the instruments of ratification were exchanged.

Article 32. Termination

The proposed convention will continue in force indefinitely but either country may terminate it at any time after 5 years from its entry into force by giving notice through diplomatic channels.

Article 33. Extension to possessions

The proposed convention contains a provision similar to that found in some of our other income tax conventions by which the convention may be extended to areas not otherwise covered by the proposed convention, for whose international relations either country is responsible, if the area imposes taxes substantially similar to those covered by the convention. The convention may be extended pursuant to this provision either in its entirety, or with the necessary modifications. The extension is to be effected by a written notification given the other country and assented to by it in a written communication, which notification and communication are then to be ratified by each of the two countries in accordance with their constitutional procedures.

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